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Ghana: CPI Inflation Surprisingly Bucks 5-Month Streak Of Decline; Increasing by 30bps to 23.5% in January 2024.

After five consecutive months of decline since Aug-2023, Ghana's headline inflation unexpectedly bucked the trend, increasing by 30bps to 23.5% in Jan-2024. While year-on-year food inflation continued to decline for the sixth consecutive month in January 2024, non-food inflation reversed course, increasing by 180bps to 20.50% in January and underscoring the increase in headline inflation.

The m/m inflation trend remains undulating, with headline, food and non-food inflation increasing to 2% (+80bps m/m), 1.6% (+30bps m/m), and 2.4% (140bps m/m), respectively, reflecting the simmering price pressures. Eleven out of twelve divisions of the non-food inflation basket recorded higher rates of inflation y/y in Jan-2024, dominated by education (+5%), health (+3.6%), housing (+3.1%) and transport (+1.2%) divisions. On a m/m basis, twelve (12) out of the thirteen (13) divisions recorded higher inflation, with the transport division switching from a deflation of 0.1% in Dec-2023 to an inflation of 0.5% (+0.6% m/m). The increased demand around the Yuletide and the associated price effects partly underscore the increase in inflation in January. We also note a slight upward adjustment in ex-pump petroleum prices with its pass-through to transport costs and the simmering exchange rate pressures, underscoring the reversal in the inflationary trend.

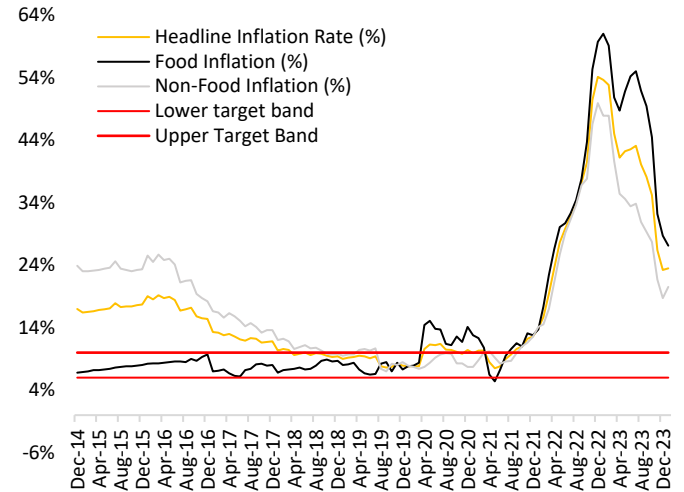
Analysis of Inflation and Implications for Interest Rates and Monetary Policy

We maintain our view of inflation for 2024: Despite the surprise inflation print in January 2024, we reaffirm our inflation outlook. The suspension of the proposed VAT on household electricity consumption eliminates the immediate risk to inflation. However, inflation could climb higher in March 2024 to within 26% largely on account of unfavourable base drift before returning to the path of disinflation from April 2024, all things being equal. Thus, we expect headline inflation to print sub-20% from May 2024. We therefore peg our end 2024 outlook at 16.5% ±1%, all things being equal. However, we note risks to inflation from the simmering Cedi depreciation despite the FX liquidity cushion from disbursements under the ongoing IMF programme and its potential pass-through and second-round effects on inflation in the coming months. We also reiterate the risks to inflation from any unrestrained expenditure in the run-up to 2024, which could reignite demand-driven price pressures around the peak of the political season.

Implications for monetary policy: While the unexpected 100bps cut in the MPR in Jan-2024 was not entirely surprising, with the direction of inflation pointing lower despite the simmering upside risks, we expect the monetary policy stance to remain cautious and appropriately tight. According to our in-house projections, inflation would have inched higher to within 26% by the Mar-2024 MPC meeting, and we expect the Monetary Policy Committee to defer its next rate cut to the May 2024 monetary policy window, by which time inflation would have firmly returned to the path of disinflation. Accordingly, we maintain our projection of at least three and at most four interest rate cuts in 2024 to between 24% and 26% by the end of 2024 as the Central Bank balances the risks to inflation and growth.

Outlook for Nominal Interest Rates: The Treasury has achieved, on average, 1.40% yield compression thus far in 2024 and the anticipated decline in inflation and the improving fiscal, debt and macroeconomic outlook should sustain the decline in nominal yields across the T-bill curve. However, bond pricing could remain depressed until T-bill yields fall sufficiently to restore the normal upward-sloping shape of the LCY yield curve. Since inflation will not return to the target band until 2025, and T-bill yields will decline slowly, secondary bond market activity could remain depressed through 2024. However, commercial lending rates should be broadly unchanged, particularly as they have stayed below the policy and T-bill rates through 2023.

Figure 1: Dynamics of headline inflation



Source: GCB Capital Research | Ghana Statistical Service | Bank of Ghana

Figure 2: Inflation and the Monetary Policy Stance

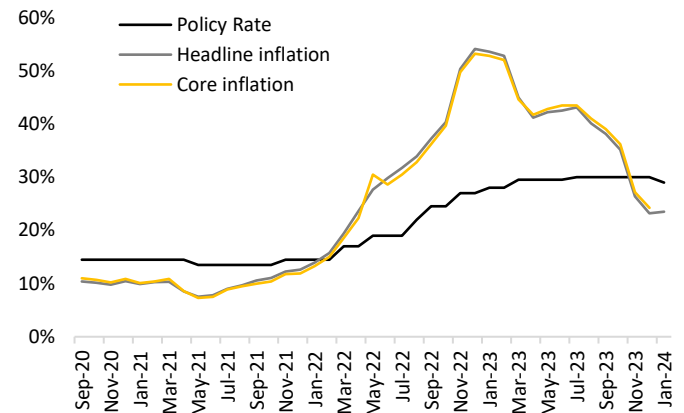
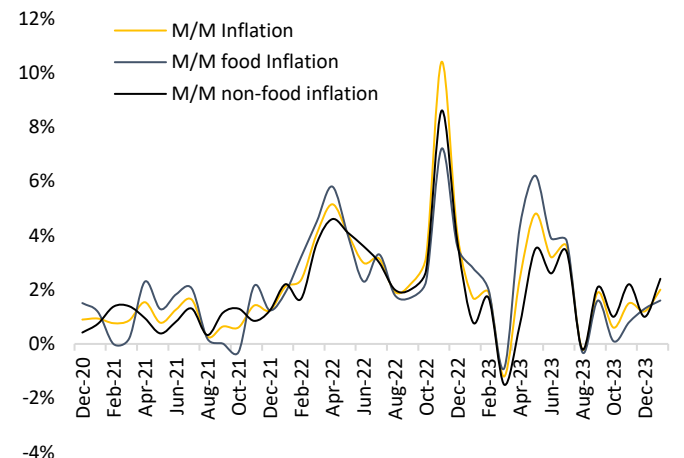


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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